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E.O. 12958: DECL: 03/24/2018
TAGS: [ECON](#) [ETRD](#) [PREL](#) [PGOV](#) [IR](#) [TU](#)
SUBJECT: MARCH 11 TURKEY-IRAN BUSINESS COUNCIL MEETING:
"DEFINITELY NOT A NEIGHBORLY LOVE-FEST"

REF: (A) ANKARA 216 (B) ISTANBUL 56 (C) ISTANBUL 104

Classified By: Consul General Sharon Wiener; reason 1.5.(d).

¶1. (C) Summary: A Consulate Istanbul contact who works for Turkey's Foreign Economic Relations Board (DEIK) shared with us internal DEIK reports summarizing the March 11 Turkey-Iran "Joint Business Council" meeting in Iran. According to those reports and our contact's impressions of the meeting, the Iranian side was "going through the motions," smiling for the press but complaining in the meetings that Turkey is not cooperating enough with Iran, including in the banking sector. No significant deals were agreed at the meeting despite the presence of 40 Turkish company representatives, though plans were made for a number of further meetings this year. Although these recurring meetings rarely result in significant commercial deals being inked, they still play to Iran's claim that it is not economically isolated and indeed carries on "normal" trade relations with neighbors. That said, Turkey's frustration with some of Iran's business practices and barriers to improved trade were palpable from the meeting summaries. End summary.

¶2. (C) As previewed in ref C, a delegation of representatives from the Turkish Union of Chambers and Commodities Exchanges (TOBB), Foreign Economic Relations Board (DEIK), GOT Undersecretariat for Foreign Trade, and numerous Turkish companies participated March 11 in the "7th Joint Business Council" meeting in Tehran with Iranian government and commercial counterparts. A consulate contact who works for DEIK and participated in the meeting (please protect) recently shared with us DEIK's internal summaries of the meeting, as well as his own impressions.

Turkish Delegation presentations

¶3. (C) According to a written summary of the meeting, Iranian Chamber of Commerce Chairman Nahavandian opened the meeting with a brief welcome ("surprisingly brief" according to our contact) and turned the floor over to the Turkish side. Turkey-Iran Business Council Chairman Ali Osman Ulusoy and TOBB Chairman Hisarciklioglu gave presentations on the state of Turkey-Iran commercial relations in which they noted that:

-- Bilateral trade volume reached USD 8 billion in 2007, but the trade remains highly imbalanced. Iran's exports to Turkey (predominantly hydrocarbons) are five times greater than Turkey's exports to Iran. (See ref A for more detail on Turkish-Iran trade figures.)

-- The sale of Iran's Samand cars in Turkey and the recent USD 650 million purchase by Turkish chemical company Gubretas

of Iran's largest fertilizer factory, Razi petrochemical, are encouraging developments.

-- However, urgent action is needed to reduce customs duties imposed by the Iranian government. The ECO Trade Agreement, once fully ratified and implemented (five of ECO's ten members have ratified it, including Iran and Turkey) should help lower Iranian tariffs on Turkish goods, and thus increase bilateral trade.

-- Turkey is disappointed by recently increased Iranian duties levied against Turkish furniture and medium-density fiberboard (MDF) exports.

-- Turkey is also unhappy about pirating in Iran of Turkish intellectual property, including Turkish CDs and films, and the lack of Iranian government action to stop it, which discourages Turkish and other foreign investment in Iran.

-- The establishment of "modern" banking ties -- including an improved technical capacity on the part of Iranian banks to allow more efficient real-time communications and financial transactions -- is important. (Our DEIK contact said this point was intended to be a subtle call for more transparency in Iran's financial sector.)

--Turkey is ready to work with Iran to further develop tourism infrastructures in both countries and to expand bilateral tourism opportunities.

Bilateral with Iran's Trade Minister

14. (C) According to DEIK's internal meeting readout, in a restricted side meeting with Turkish delegation leader Hisarciklioglu, Iranian Trade Minister Mirkazemi suggested that the GOI and GOT should encourage interaction between their respective private sectors. Mirkazemi pointed to the banking sector as an important example, agreeing that the two banking sectors should be more closely linked and proposing that Turkish and Iranian banks establish a joint private bank. Mirkazemi also suggested Iranian and Turkish companies should partner together to seek out investment opportunities in third countries. He identified several bilateral commercial agreements already in place -- a mutual investment treaty, a double taxation agreement, a customs union agreement, and various transportation agreements -- as examples of how Iran's and Turkey's economies are becoming inter-linked. Mirkazemi asked for increased Turkish investment in Iran and complained about Turkish quotas imposed on certain Iranian goods. (The DEIK summary did not identify which Iranian goods.)

15. (C) Hisarciklioglu underlined the importance to Turkey of the ECO Trade Agreement and said Turkish investors were actively investing in Iran. He noted that Turkish Foreign Trade Minister Tuzmen will visit Iran with a business group in coming weeks, and invited Mirkazemi to attend the ECOTA Ministerial to be held in Ankara May 20-22, 2008. He cautioned Mirkazemi, however, that Turkish investors are justifiably wary after seeing the problems that Turkish companies like TAV and Turkcell have had trying to do business in Iran, and said he would like to see more "success stories" like Gubretas's recent purchase of Razi Petrochemical (ref C).

16. (C) Hisarciklioglu pointed to a Turkish proposal to establish a "joint arbitration board" to resolve commercial conflicts between Turkey and Iran, noting that TOBB and Iran's Chamber of Commerce, Industry, and Mines (ICCIM) have agreed to develop this proposal. He further suggested that official recognition by the GOT and GOI of such an arbitration board would help give confidence to Turkish companies to seek out new investments in Iran.

Bilateral with Iran's Transportation Minister

¶7. (C) According to DEIK's internal readout, Iranian Transportation Minister Rahmati said that road, air, maritime, and railway transportation infrastructure between Turkey and Iran should be improved to facilitate increased bilateral trade. He noted that he plans to participate in a Regional Transportation Ministerial in Istanbul in early April, followed by the "6th Joint Transportation Commission" meeting between Turkish and Iranian Transport Ministries to be held in Tehran in late April, where he will raise this issue with Turkish Transportation Minister Binali Yildirim and propose specific improvement projects. One example he cited was the Lake Van (eastern Turkey) area's poor highway links to Iran, which have forced Iran to consider funding an improved railway link in that area to facilitate cross-border trade. Hisarciklioglu defended Turkey's transportation sector, asserting that it "ranks first in Europe and second in the world" in terms of trucking volume and suggested that it is on the Iranian side of the border where the most pressing transportation infrastructure problems lie.

¶8. (C) Hisarciklioglu invited Rahmati to attend an International Transportation Congress in Istanbul in May, where "revitalization of the ancient Silk Road" -- i.e., expanding transportation links between Turkey, the Middle East, and China -- will be discussed. Hisarciklioglu also complained about Iran charging Turkish truck drivers a higher road tax than Turkey charges Iranian truckers and asked Rahmati to correct the imbalance.

Observations from a Turkish participant

¶9. (C) Consulate Istanbul's DEIK contact said that the Iranian hosts were not as friendly or welcoming as they had been the previous year. He characterized them as "going through the motions" in holding the meeting: smiling and shaking hands for the assembled press, but falling back on tit-for-tat complaints and defensive posturing during the discussions. "It was definitely not the neighborly love-fest the Iranian press suggested it was." As one example, he said that when Hisarciklioglu pointed out the bilateral trade imbalance, Iranian Trade Minister Mirkazemi caustically retorted that he had learned from his own father, a successful businessman, that in business it pays to make unfair complaints about the other side, which is why he chose to become a government Minister instead.

¶10. (C) Our contact assessed that no significant commercial deals were agreed at the meeting despite the presence of 40 Turkish company representatives, though plans were made for a number of follow-up bilateral commercial meetings this year. He also told us that despite the suggestion that some DEIK staff had made last month to Hisarciklioglu to propose that Iran facilitate bilateral trade payments to Turkey by depositing a large sum of money in a Turkish branch of Bank Mellat (ref C, para 7), Hisarciklioglu did not raise the idea with Iranian interlocutors.

¶11. (C) Tehran atmospherics: Our contact noted that the Tehran traffic was lighter in early March 2008 than it had been during last year's meeting in Iran. His Iranian hosts admitted that ongoing petrol rationing precluded poorer drivers, who could not afford to buy black market rationing cards, from partaking in leisure driving around the city. He also saw no visible evidence that Iran was about to hold parliamentary elections three days later (March 14), and found it noteworthy that the topic of elections never came up in any meetings with Iranian counterparts, "even as idle chit-chat."

¶12. (C) Comment: Based on this inside look at the meeting, a primary benefit to the Iranian regime of continuing this series of twice-annual "joint business council meetings" with Turkey is that it plays to Iran's claims that it is not economically isolated and instead carries on "normal" trade relations with its neighbors. Any actual commercial deals that Iran can secure from Turkey under Joint Business Council auspices -- such as a joint banking venture -- would be icing

on the cake. For Turkey's part, it's Chamber of Commerce and participating companies have a single objective: persuading Iran to buy more Turkish goods. For the most part Turkish companies have yet to fully weigh this objective against the legal and political risks of doing business with a country facing a tightening international sanctions regime. On the other hand, the numerous complaints about doing business with Iran posited by the head of the Turkish delegation during this meeting suggests palpable Turkish frustration and chafing at the commercial hassles of trying to do business with Iran. End Comment.

WIENER